

TACIR *FAST FACTS*

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This Issue:

How Does Tennessee's Budget Work?

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TACIR recently released The Citizens' Guide to the Tennessee Budget. The Guide describes

- *How Tennessee's budget document is organized*
- *How the budget works*
- *The process of creating the budget*
- *How the executive and legislative branches interact to resolve differences before the budget is signed into law*
- *How the budget is funded*
- *The constraints the state faces in cutting the budget*
- *How and why the budget grows.*

This issue of Fast Facts provides a summary of the Guide's discussion of how Tennessee's budget works and some of the constraints to cutting the budget.

How Does Tennessee's Budget Work?

Each year, Tennessee's Governor presents his proposed budget for the next fiscal year, simply titled *The Budget*, to the General Assembly for approval. *The Budget* is prepared using intricate accounting principles set out by the Governmental Accounting Standards Board (GASB). Generally, however, one needs merely to grasp the basic nature of how budgets work: budgets show how much money governments raise, how they raise that money, how much money they spend, and on what programs they spend that money. Basically, money in, money out.

Money In

Tennessee brings money in from four broad sources:

1. **General Tax Revenue**
2. **Federal Revenue**
3. **Current Services and Other Revenue**
4. **Bonds.**

As revenue is collected, it is deposited into one of several funds to support the appropriations enacted by the General Assembly. The appropriations are made based on revenue estimates contained in *The Budget*, or on revised estimates presented to the General Assembly prior to passage of the Appropriations Act.

For ease of understanding, *The Budget* summarizes expenditures and revenues by grouping all programs into one of six categories:

1. **General Fund**
2. **Highway Fund (Department of Transportation)**
3. **Facilities Revolving Fund**
4. **Local Government Fund (Cities and Counties State-Shared Taxes)**
5. **Debt Services Fund (Debt Service Requirements)**
6. **Capital Projects Fund (Capital Outlay Program)**

Double Counting

The Budget includes a lot of double counted revenue. Some programs, like the state's internal postal service and main print shop, are funded from fees charged to other agencies. In order to authorize those other agencies to spend money on mail and printing, the money must be included in their budgets. At the same time, in order to authorize the print shop and the postal service to spend money to serve those other agencies, the money must also be included in their budgets.

Current Services

Current service revenues are program funds generated by a specific activity to support that activity (such as certain fees, assessments, and gifts or endowments).

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Money Out

Based upon agencies' requests, the Governor recommends in *The Budget* how the estimated revenue should be expended in the coming fiscal year. The recommendations are reported in the Program Statements by Functional Area section of *The Budget*. The recommended expenditures are also reported by program type in the Budget Overview section of *The Budget*, where they are compared to the estimated expenditures for the current fiscal year and actual expenditures for the prior fiscal year.

The General Assembly is responsible for making the actual budget appropriations using a bill known as an Appropriations Act. The actual appropriations may or may not agree with the Governor's recommendations.

Once the Appropriation Act becomes law, the Department of Finance and Administration's Division of Budget, with input from fiscal personnel from the various agencies, reconciles the Appropriations Act with the recommended budget. Tennessee's Constitution requires the state to maintain a balanced budget.

Budget Discretion

In *The Budget* for 2002, the Governor recommended expenditures of \$19.92 billion. However, most of the estimated revenue used to fund the expenditures recommended in the budget comes from sources other than state taxes:

- \$6.97 billion of the estimated revenue funding the budget comes from the federal government.
- \$3.09 billion of the estimated revenue comes from current services or other non-tax sources:
 - \$1.28 billion from interdepartmental revenue.
 - \$1.28 billion from current services. This is money collected by a specific activity to support that activity. It comes from licenses, user fees, etc.
 - \$528 million from higher education tuition and fees.
- \$289 million of the estimated revenue comes from the anticipated sale of bonds.

So, the total recommended state appropriation equaled \$9.57 billion. However, over the years the legislature has earmarked much of this money to address specific policy concerns:

- \$3.44 billion is money earmarked (dedicated) to the education trust fund.
- \$691 million goes directly to local governments through state-shared taxes.
- \$667 million goes directly to paying for the state's highway and transportation services.
- \$216 million dollars is earmarked for various other programs.

These earmarks cannot be removed solely through the budget process. Removing an earmark requires additional legislation that would have to overcome the original policy concern.

Many programs face special spending controls related to past and current lawsuits or federal spending requirements. These special discretionary items equaled \$4.18 billion. So, of the \$9.57 billion in recommended appropriations from state taxes in fiscal year 2002, the administration only had full discretion over \$372 million, which is less than two percent of the state's total budget.

Comparison of Total State Budget Total State Appropriation & Share of Appropriation Over Which the State has Full Discretion, 2001-2002

Total State Budget - All Funding Sources	\$19,917,323,400
Less:	
Federal Revenue	6,972,673,400
Current Services:	
Interdepartmental Revenue	1,280,457,900
Other Departmental Revenue	1,280,621,000
Higher Education Student Tuition and Fees	528,310,800
Bonds	289,000,000
Total State Appropriation	\$9,566,260,300
Less:	
Education	3,437,600,000
Transportation	667,220,000
Cities and Counties	690,900,000
Other Earmarked Taxes	215,721,000
Special Non-Discretionary Items	4,182,901,200
State Appropriation Total with Full Discretion	\$371,918,100

Source: *The Budget* and the Tennessee Department of Finance and Administration

TACIR Publication Policy

Staff Information Reports, Staff Briefs, Staff Technical Reports, Staff Working Papers and TACIR Fast Facts are issued to promote the mission and objectives of the Commission. These reports are intended to share information and research findings relevant to important public policy issues in an attempt to promote wider understanding.

Only reports clearly labeled as "Commission Reports" represent the official position of the Commission.

The TACIR Mission

To serve as a forum for the discussion and resolution of intergovernmental problems; provide high quality research support to state and local government officials in order to improve the overall quality of government in Tennessee; and to improve the effectiveness of the intergovernmental system to better serve the citizens of Tennessee.



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